National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates, Supplementary Estimates (A) as well as Canada's Economic Action Plan (Budget 2012, Budget 2013, Budget 2014 and Budget 2015). They have been prepared by management as required by section 65.1 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* and in the form and manner prescribed by the Treasury Board of Canada Secretariat. Although these statements have not been subject to an external audit or review, the National Research Council Canada (NRC) attests that they are an accurate and true reflection of the financial position for the period ending September 30, 2015.

1.1 NRC Mandate

The NRC exists under the *National Research Council Act (R.S.C., 1985, c. N-15)* and is a Departmental corporation named in Schedule II of the *Financial Administration Act (R.S.C., 1985, c. F-11)*. The mission of the NRC is to work with clients and partners to provide innovation support, strategic research, and scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus, instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.

Further details on the NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates (A) for 2015-16. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

The authority of Parliament is required before moneys can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government of Canada to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

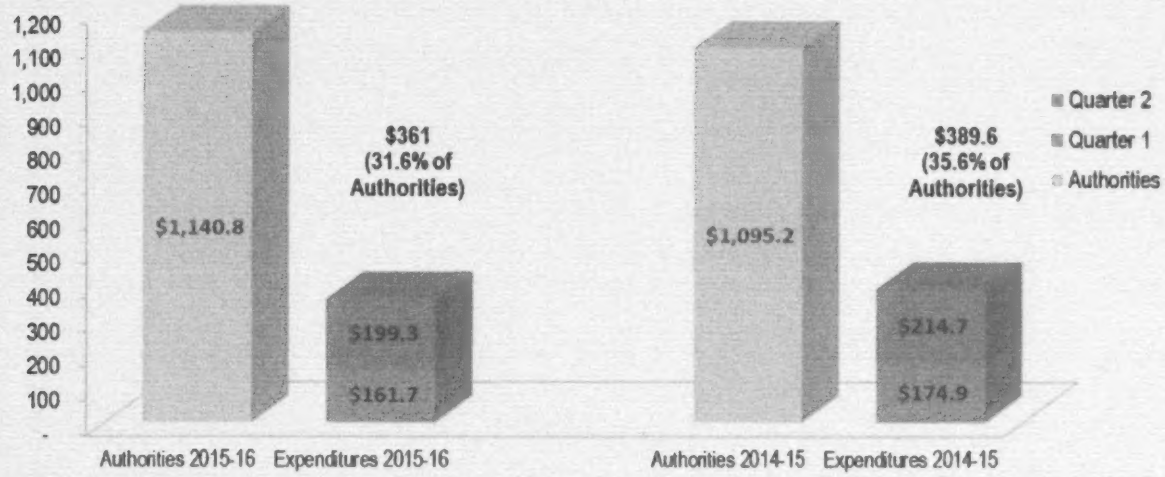
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on September 30, 2015 compared with the previous fiscal year. This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object found on the last 2 pages of this report.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of September 30, 2015 and those as of September 30, 2014.

Comparison of Budgetary Authorities and Expenditures
as of September 30, 2015 and September 30, 2014
(in millions of dollars)



As shown in the graph above, the NRC's expenditures totalled $199.3M during the second quarter of 2015-16 which represents a decrease of $15.4M over the second quarter of 2014-15. Lower expenditures are mainly attributable to the decrease of $28.9M of personnel in operating and statutory revenue expenditures offset by an increase of $12.7M in Grants and Contributions due principally to timing differences. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending September 30, 2015, the authorities provided to the NRC include the Main Estimates, Supplementary Estimates (A), the Statutory revenue authorities carried forward from 2014-2015 as well as all authorities received from Treasury Board of Canada Secretariat Votes. The following table summarizes the significant changes to NRC authorities since June 30, 2015:

Significant Changes to Authorities (*unaudited*)
For the year ending March 31, 2016 - As of September, 2015
(in millions of dollars)

	Vote 1 Operating	Vote 5 Capital	Vote 10 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2016 - As of June 30, 2015						1,132.9
Operating and Capital Budget Carry Forward	5.1	2.8				7.9
Total increase (decrease) in authorities in comparison to prior quarter	5.1	2.8	-	-	-	7.9
Authorities – Total available for use for the year ending March 31, 2016 - As of September 30, 2015						1,140.8

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object both located at the end of this report.

2.3.1 Variances in Year-to-date Expenditures

As of September 30, 2015, year-to-date expenditures were $361M, representing a decrease of $28.6M (7.3%) in comparison to the 2014-15 expenditures of the same period. The decrease is mostly attributable to the following items:

- Combined operating expenditures and statutory revenue expenditure decreased by $35.6M compared with the same period of the previous fiscal year. This change is mainly attributable to a decrease of $28.8M in personnel, a decrease $14.9M in other subsidies and payments, offset by an increase of $3.1M in professional fees. The decrease in personnel cost of $28.8M is largely due to the ratification of several collective agreements in 2014-15, which has resulted in one-time prior-year retroactive payments of $16.9M, and a one-time severance payments of $12.8M in 2014-15. The decrease in other subsidies and payments is mainly due to the $11.6M transition payment in 2014-15 for implementing salary payments in arrears by the Government of Canada. The increase in professional fees is mainly attributable to an increase in engineering services and consultation of $1.4M and increase in temporary services of $0.9M.
- Transfer payments consisting of Grants & Contributions (G&C) expenditures increased by $7.9M compared with the same period in the previous year. This change is principally attributable to an increase for same period due to timing in contribution payments to Firms of $5.8M, to Youth Employment Strategy of $6.2M, for the Business Innovation Access Program of $2.5M, for the Canada Accelerator and Incubator Program of $2.4M, offset by a decrease due to timing in contribution payments to TRIUMF of $9.7M.

3. Risks and Uncertainties

At the end of the quarter ended September 30, 2015, discussions related to the update of corporate risks reflected growing concerns over global disruptions (e.g., pandemic, collapse of oil prices) creating continued economic and political instability with potential impact on NRC and its clients.

In the more immediate term, some risks were heightened (including operational efficiency, and sourcing and management of technical and business expertise) in consideration of notable challenges and lengthy response times working through the centralized service delivery model with Shared Services Canada, as well as long lead times for processes including procurement and hiring – affecting R&D program delivery and implementation. Internal efficiencies continue to be sought through initiatives such as the Corporate Management transformation.

Creating balance between security requirements and operational agility and effectiveness was noted as a priority for moving ahead as NRC continues to put systems and applications back online after the cyber intrusion from last year.

4. Significant changes in relation to operations, personnel and programs

Progress continues to be made in the new Secure NRC environment, with corporate IT systems being brought back online. Planning activities have been initiated for new advanced manufacturing initiatives.

Approved by Senior Officials

Approved by:

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Ottawa, Canada
November 25, 2015

Statement of Authorities (unaudited)

For the quarter ended September 30, 2015

	Fiscal Year 2015-16 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended September 30, 2015	Year to date used at quarter-end
Vote 1 - Operating expenditures	402,074	90,095	161,808
Vote 5 - Capital expenditures	59,086	4,917	6,787
Vote 10 - Grants and contributions	307,659	59,551	96,452
Statutory revenue **	322,535	34,194	75,057
Statutory EBP	49,427	10,551	21,103
Total Budgetary authorities	**1,140,781**	**199,308**	**361,007**

	Fiscal Year 2014-15 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended September 30, 2014	Year to date used at quarter-end
Vote 1 - Operating expenditures	391,173	110,940	230,032
Vote 5 - Capital expenditures	31,213	3,600	6,805
Vote 10 - Grants and contributions	274,891	46,891	88,496
Statutory revenue **	354,010	42,262	42,262
Statutory EBP	43,901	10,975	21,950
Total Budgetary authorities	**1,095,188**	**214,668**	**389,545**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act (R.S.C., 1985, c. N-15).*

Departmental budgetary expenditures by Standard Object (unaudited)
For the quarter ended September 30, 2015

	Fiscal Year 2015-2016 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended September 30, 2015	Year to date used at quarter-end
Expenditures:			
Personnel	464,599	95,944	190,103
Transportation and communications	20,803	3,428	6,104
Information	2,061	360	697
Professional and special services	86,787	10,170	17,825
Rentals	9,502	1,742	3,565
Purchased repair and maintenance	28,038	4,216	7,795
Utilities, materials and supplies	66,147	8,477	14,167
Acquisition of land, buildings and works	33,955	2,522	3,915
Acquisition of machinery and equipment	93,645	8,400	13,484
Transfer payments	307,659	59,551	96,452
Other subsidies and payments	27,585	4,496	6,910
Total net budgetary expenditures	**1,140,781**	**199,308**	**361,007**

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended September 30, 2014	Year to date used at quarter-end
Expenditures:			
Personnel	425,071	126,224	218,940
Transportation and communications	24,765	3,302	6,201
Information	3,445	273	546
Professional and special services	104,798	7,890	14,709
Rentals	8,445	1,180	3,384
Purchased repair and maintenance	37,069	2,872	5,519
Utilities, materials and supplies	108,662	7,996	13,512
Acquisition of land, buildings and works	16,574	3,138	4,579
Acquisition of machinery and equipment	61,253	7,329	11,619
Transfer payments	274,891	46,831	88,496
Other subsidies and payments	30,215	7,573	21,840
Total net budgetary expenditures	**1,095,188**	**214,668**	**389,545**